

A New Star Oil Company with Vitality and Growing At high speed

With 1999, China National Star Petroleum Corporation (CNSPC) goes into the third year of its operation. The last two years were out of the ordinary for CNSPC. Focusing on our efforts on the economic efficiency through the reduction of operation costs, we accomplished good achievements in all business sectors against adverse effects by the Asian financial crisis and protractedly slumping world oil market. The company showed excellent momentum of rapid growth.

CNSPC has attained a continued high economic growth in 1998. The aggregated business revenue amounted to RMB 5.39 billion, up 28.28% from 1997; production-added value was RMB 2.28 billion, up 20% from 1997; company accumulation was RMB 1.26 billion, up 20% from 1997; assets were appreciating at an increase of 8% and net assets were augmented to RMB 5.17 billion, up 39% from 1997.

☆ **Significant breakthrough in exploration**

Substantial addition to reserves

In 1998, CNSPC won significant breakthroughs in exploration. 116 new structural traps with a total area of 987 square kilometers were discovered. 83 exploration wells were drilled, which 46% and 68% were recorded in success rates for exploration wells and appraisal wells, respectively. The most important oil and gas discoveries have been obtained in key areas, such as Tarim Basin, west Sichuan and Songliao basins. Tahe oilfield in Tarim basin, with reserves of 100 million tons of oil has been identified, and its oil-bearing area and reserves are hopefully to be further enlarged. In Xinchang gas field in Sichuan Province, the proven reserve of gas reached 100 billion cubic meters. New exploration and exploitation harvests were gained in southern part of Songliao Basin, northern part of Tibet and East China Sea. For the whole year, a total of 153.394 million tons of oil equivalent for in-place reserves have been added to the company's reserve account.

☆ **Steady increase in oil and gas production**

Obvious rise in market share

By the end of 1998, CNSPC produced 1.87 million tons of oil equivalent with a newly added productive capacity of 840,000 tons brought on stream. Despite of long period of low oil price and the difficult over-supplied domestic gas market in 1998, we continued to readjust our internal structure, and was successfully expanding our oil and gas marketing into new regions. For the last year, the market share for our products was evidently rising, with a sale volume of 1.75 million tons of oil equivalent. This allowed maintaining a fair balance in our production and marketing.

☆ **Sound growth in diversified business, successful capital operation, and on-going improvement in business structure.**

The diversified business has contributed RMB 2.271 billion to the operating revenues of the year, up 27% from 1997. Good startup was initiated in capital operation by the

taking over without cost of Xi'an Petrochemical Plant and Taizhou Petrochemical Complex, and the acquisition of Mianyang Chemical Plant in Sichuan Province. The business of the company was developing into a better structure.

☆ **Technical innovation leading to rich harvests**

Overseas services and products export steadily augmenting

In 1998, CNSPC carried out a number of technical research projects as the State-Key-Task-Projects, which fructified with outstanding achievements. Substantial progress was made in the research and dissemination of certain applied technologies, from which, our exploration and development work was greatly benefited.

The company continued to put a due emphasis on the development of international services market throughout 1998. Overseas engineering services, labor and products export got a solid footing in the world market with a backlog of constantly augmenting number of newly signed contracts. The total revenue in foreign currency was US\$53.46 million.

☆ **The current development goals**

In accordance with the general development strategy of the company, namely "aiming at both onshore and offshore with the focus on oil and gas, pursuing domestic and foreign partnership, developing the businesses in a diversified way, with the ultimate goal to build the company into a modern oil company with comprehensive strengths". From the very beginning of its founding, CNSPC has clearly defined as the primary and strategic task, the finding of large oil and gas fields. By exerting its superior expertise in exploration and findings, CNSPC accomplished ahead of the schedule, the goals to foster a 100-million tons oilfield in Tarim Basin and a 100-billion cubic meters gas field in west Sichuan. Besides, the plan to find a medium-sized oilfield of 30 million to 40 million tons of oil in each of the north Jiangsu Province, west Sichuan, south Erdos Basin and south Songliao Basin is also being smoothly implemented.

Following the development strategy of the company, we are taking series of effective measures:

First, we give top priority to the oil and gas exploration, which is considered as the foundation for a sound growth of oil/gas development and production. Starting from a low floor of production, CNSPC fully realizes that only by intensifying exploration to get more oil and gas findings, can the corporation grow stronger, so as to make greater contribution to the development of our national economy. In the exploration, we are always targeting large basins with the focus on the finding and fostering of medium and large size oil and gas fields. Our exploration was highly successful and economically viable, as we implement all exploration projects as commercial undertakings, with the goal of getting more economically recoverable reserves at low exploration costs.

Secondly, we are intensifying natural gas exploration and comprehensive utilization. The 21st century will be the age for natural gas. With the fast growth of economy and rapid industrialization, there appear a series of severe environmental problems. Consequently, more and more countries tend to link the economic development closely with the environment protection in pursuit of a sustainable economic growth.

Natural gas, as an efficient and clean energy, will be put at a more and more important place in the world economic and social development. Supported by a large amount of proven natural gas reserves, CNSPC will fully exploit its superiority in natural gas exploration and actively develop downstream utilization market. In this way, we contribute to the development of our national economy as well as to the protection of human living environment.

The third measure is to speed up our internal restructuring, and to enhance the economic efficiency through technical improvement in exploration and development. In an on-going price dropping world oil market and facing ever-increasing difficulties in oil and gas exploration and development, it becomes the first priority for all oil companies to dramatically reduce the costs of exploration and development. CNSPC will push ahead its internal reform and structure readjustment in line with the oil company model. Through the process of optimizing the resources allocation, raising our employees' sense of costs and strengthening the management, we will realize the efficiency enhancement and fast growth. Also, we will increase the input to the scientific research and technical innovations, adopt advanced foreign technology and equipment in the solution of difficult problems in our operation, intensify the dissemination of research results to provide strong technical supports to our efforts in increasing the economic efficiency through reduction of costs.

Finally, we will continue to promote the opening to the outside world and to actively exploit international market. Rapid development of China's economy was benefited from the opening to the outside world. The same is even true of the development of Chinese oil industry. In compliance with the Chinese government policy on the exploitation of both domestic and foreign resources and energy market, CNSPC will strengthen cooperation with foreign companies on the basis of mutual benefits. We will take an active part in international competition in engaging in foreign petroleum exploration and development and in seeking engineering services projects.

In 1999, CNSPC is advancing at a greater pace in all its business sectors. We will double all of the major economic norms of the company at the end of this year. The tasks are as follows:

☆ In 1999, production and operation revenues are targeted for RMB 6 to 6.5 billion; production added value, for RMB 2.8 to 3 billion and company accumulation, for RMB 1.6 to 1.8 billion; doubling all the corresponding figures for 1996.

☆ By the end of 1999, we will hold proved and possible reserves at 500.02 million tons of oil equivalent, two times as much as 1996's number of 250 million tons at the year-end.

☆ The oil and gas production for 1999 will reach 2.8million tons of oil equivalent, doubling 1996's production of 1.36 million tons.

☆ The oil and gas production capability for 1999 will be stepped up to 3.4 million tons of oil equivalent, two times as high as 1996's level at 1.7 million tons.

The operation of the company in the first half of the year shows that the above goals are fully achievable. We are confident of our company's brilliant prospect.

The development and growth of CNSPC was greatly benefited from the support and cooperation of international companies and of our U.S counterparts, in particular.

CNSPC is expecting an even more strengthened and broadened cooperation with US oil companies in pursuing a common development.